

Stevenson Kellogg Ernst & Whinney

Management Consultants

Proposed Consulting Program

(Outline)

REVIEWING GOVERNMENT FINANCIAL
OBLIGATIONS AND NET DEBT
POLICIES TO MARCH 31, 1988

Prepared for

Hon. Clayton Manness
Minister of Finance
Room 103, Legislative Buildings
Winnipeg, Manitoba
R3C 0V8

Submitted by

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Revised

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I

INTRODUCTION

We are pleased to present an outline of our proposal to assist the Provincial Government in establishing a more rational basis for treating existing financial obligations and for addressing related accounting and programmatic policy issues.

In this proposal, we describe our:

- ▶ Engagement objectives.
- ▶ The proposed scope and approach of this project.
- ▶ Specific areas of project review.
- ▶ Our proposed project staffing, timing and budget.

In preparing this proposal, we have benefitted from the dedicated efforts of staff members of the Provincial Auditor's office, Department of Finance, and other government representatives.

We are pleased to be of service.

II

OBJECTIVES

In general, the objective of this engagement is to ensure that financial obligations and losses incurred during or prior to fiscal year 1987/1988 are identified, attributed to appropriate financial periods, and given the proper accounting treatment.

More specifically, the objectives of this engagement are:

- ▶ To provide a sound and rational basis for establishing a proper valuation allowance for fiscal year 1987/88.
- ▶ To recommend debt mitigation strategies to reduce the potential reoccurrence of inappropriate losses.
- ▶ To recommend accounting policy changes which are consistent with GAAP and pending PSAAC guidelines, and which are directed to improve government financial representation and reporting for the long-term.
- ▶ To identify more general policy revisions in support of permanent changes to position the government for a sound financial future.

Materiality guidelines are vital

An effort to identify all losses and financial obligations which could be attributed to fiscal 1987/88 and prior years would be an extensive, time consuming and costly exercise.

Therefore, you have made it clear that the selection of targets for review with respect to valuation allowance potential must be made on the basis of sound materiality guidelines. You wish us to examine only in those areas that offer a reasonable return on investment and which will likely have a significant effect on financial statement representations.

Our proposed materiality guidelines are the following:

- ▶ Potential adjustments in the \$5 million range in aggregate, for 1987/88 and prior periods will be pursued.
- ▶ Consideration will be given to potential adjustments, which during this fiscal year may be less than \$5 million, but which represent the initiation of a program with greater potential loss in future years. We suggest a threshold of \$2 million.

- ▶ Consideration may be extended to projects which, although of lesser financial potential, represent a significant political risk and cause concern with respect to potential future losses and overall government commitments. For this, a limit of \$1 million will generally be used.

These guidelines should be discussed with and comment ~~l~~ upon by the Provincial Auditor.

We understand that the project will be guided by a Steering Committee composed of:

- ▶ The Provincial Auditor or his representative.
- ▶ The Deputy Minister of Finance, or his representative.
- ▶ Other officials, as required.

III

SCOPE AND APPROACH

In order to effectively employ the talents, experience, and work already completed by Department of Finance staff and the Provincial Auditor's office staff, we have agreed to three classifications of review effort. This project classification system will help ensure that, to the extent possible, the existing knowledge base is utilized without compromising the benefits of an external and independent evaluation.

The three review classifications include:

1. Full external review

These will be performed by the appropriate Stevenson Kellogg Ernst & Whinney and Thorne Ernst & Whinney staff, with regular review and input from the Project Steering Committee. An auditor will be assigned to each project to perform the financial analysis; and a management consultant familiar with the specific operating requirements and policy objectives of the entity will also be engaged.

2. Joint review

These projects will be done jointly by provincial government staff and the consulting and auditing team.

3. Government review; External oversight

A number of projects are currently being addressed by the staff of the Finance Department with input from the Provincial Auditor. Staff of Stevenson Kellogg Ernst & Whinney and Thorne Ernst & Whinney will serve in an oversight role and will provide a vehicle for final review for this category of projects.

Exhibit IV-1 identifies proposed projects on this basis.

In general, it is our intention to scope these reviews by limiting the time horizon of information to a one year period, which would not extend back further than April 1, 1987, except where existing information is readily available and can adequately be reviewed within the time restrictions of this project.

4. Survey of remaining departments

We have also been asked to interview the heads of provincial departments, agencies, and Crown corporations not reviewed in one or more of

the three categories above. These interviews will be restricted to those units large enough to have financial transactions that meet our materiality provisions. The main purpose of these meetings will be to ensure that major liabilities from fiscal 1987/88 have been reported; and to survey any major unreported factors contributing to unexpected liabilities in 1988-89.

After project reviews are complete, the results of these will be drawn together into an overview report.

IV

AREAS FOR REVIEW

This firm has developed with the Department of Finance and the office of the Provincial Auditor, three sets of projects. These are listed in Exhibit IV-1. This firm will be solely responsible for a review of the subject areas in category one. Those in category two will be done jointly with the Finance Department, while those in category three will be performed by Finance, and reviewed by this firm. This firm will be responsible for the final product of the category two reviews; while the Department of Finance will be responsible for the category three studies. Details on each of these, and work plan outlines, have been provided to you.

**Exhibit IV-1
Review Categorization**

CATEGORY 1 Full External Review	CATEGORY 2 Joint Review	CATEGORY 3 Oversight Review
Manitoba Public Insurance Corporation	Foreign exchange	Criminal Injuries
Workers' Compensation Board	General pensions policy (including Manitoba Hydro and Manitoba Telephone Systems)	Hudson Bay Mining & Smelting
Manfor Ltd.		Jobs Fund
Manitoba Housing & Renewal Corp.	Manitoba Properties Inc.	Manitoba Energy Authority
	Unfunded liabilities of external agencies (e.g: Community Services, Employment Services and Economic Security, Health)	
New Flyer Industries		Sick leave policy
Manitoba Agricultural Credit Corporation		Severance policy
Manitoba Potash Corp		Public schools Finance Board
Beef Commission		Hazardous Waste
Business Loans and Investment: Industry, Trade & Technology; Business Development & Tourism; Manitoba Development Corporation		North Portage
Venture Capital		Manitoba Oil & Gas Corp.

Please note that there are a total of 30 government entities here. In several cases, they have been grouped into categories, e.g: Business Loans and Investments.

V

PROJECT WORKPLAN

Each of the projects will follow roughly the same overall work plan.

1. Designation of a project leader
2. Initial meetings
3. Assessment of data adequacy
4. Data collection
5. Data analysis
6. Go/no-go decisions
7. Draft and review of initial report
8. Final project report
9. Preparation of final overview report.

VI

STAFF, TIMING AND BUDGET

A. STAFF

This project would be directed by R. S. Hikel. Mr. Hikel is the managing partner of the Stevenson Kellogg Ernst & Whinney office in Winnipeg, and a specialist in public administration. He would be assisted in this by Mr. Elmer Bergman, partner in charge of the Thorne Ernst & Whinney Winnipeg office. A project leader will be selected for each component review based on appropriate experience and credentials. Other Stevenson Kellogg Ernst & Whinney and Thorne Ernst & Whinney staff will be called upon as required.

B. TIMING

We propose to initiate the project on July 4, 1988 and submit a final report by July 25, 1988 covering the impact of financial obligations on the financial statements of the government; and the accounting policy revisions necessary to reflect the sound treatment of these obligations for fiscal 1987/88 and 1988/89. A subsequent report, delivered no later than August 9, 1988, will cover debt mitigation strategies to reduce the potential reoccurrence of inappropriate losses. This report will also cover recommended accounting policy changes consistent with GAAP and PSAAC guidelines, for the longer term.

C. BUDGET

Stevenson Kellogg Ernst & Whinney is prepared to complete this project as outlined for a total, including both fees and expenses, not to exceed \$197,000.

Please note the standard conditions of service on the inside back cover.